

---

# THE LOCAL AGENCY INVESTMENT FUND ANSWER BOOK

---



A VOLUNTARY INVESTMENT PROGRAM FOR  
LOCAL GOVERNMENT ADMINISTERED BY THE  
CALIFORNIA STATE TREASURER

PHIL ANGELIDES



---

---

# TABLE OF CONTENTS

---

---

I.	THE FUND.....	1
II.	BOARD MEMBERS.....	3
III.	LAIF PARTICIPATION.....	4
IV.	SELECTED INVESTMENT DATA.....	5
V.	DESCRIPTION OF SECURITIES.....	6
VI.	MARKET VALUATION.....	12
VII.	MATURITY SCHEDULE.....	13
VIII.	SOURCE OF FUNDS.....	14
IX.	PMIA INVESTMENT POLICY.....	15
X.	MONTHLY EFFECTIVE YIELDS.....	25
XI.	ANNUAL YIELDS.....	26
XII.	QUARTERLY APPORTIONMENT RATES.....	27
XIII.	ADMINISTRATIVE COSTS.....	28
XIV.	HOW TO CALCULATE QUARTERLY EARNINGS AND APPORTIONMENT.....	29
XV.	FREQUENTLY ASKED QUESTIONS ABOUT LAIF.....	34

XVI.	DISCLOSURE STATEMENT.....	39
XVII.	IS THE POOL INSURED? .....	43
XVIII.	AUDIT PROCESS .....	44
XIX.	HOW TO PARTICIPATE .....	47
XX.	SAMPLE RESOLUTIONS .....	48
XXI.	PROCEDURES FOR LAIF TRANSACTIONS .....	50
XXII.	REPORTING DOCUMENTS .....	51
XXIII.	LAIF STATUTES .....	53
XXIV.	PMIA STATUTES .....	56
XXV.	ACCOUNT UPDATE FORMS .....	59

---

---

# The Fund

---

---

## The Local Agency Investment Fund

The Local Agency Investment Fund (LAIF) is a voluntary program created by statute in 1977 as an investment alternative for California's local governments and special districts and continues today under Treasurer Phil Angelides' administration. The enabling legislation for the LAIF is Section 16429.1 et seq. of the California Government Code.

This program offers local agencies the opportunity to participate in a major portfolio, which invests hundreds of millions of dollars, using the investment expertise of the Treasurer's Office investment staff at no additional cost to the taxpayer. This in-house management team is comprised of civil servants who have each worked for the State Treasurer's Office for an average of 20 years.

The LAIF is part of the Pooled Money Investment Account (PMIA). The PMIA began in 1953 and oversight is provided by the Pooled Money Investment Board (PMIB) and an in-house Investment Committee. The PMIB members are the State Treasurer, Director of Finance, and State Controller.

The Local Investment Advisory Board (LIAB) provides oversight for LAIF. The Board consists of five members as designated by statute. The Chairman is the State Treasurer or his designated representative. Two members qualified by training and experience in the field of investment or finance, and two members who are treasurers, finance or fiscal officers or business managers employed by any county, city or local district or municipal corporation of this state, are appointed by the State Treasurer. The term of each appointment is two years or at the pleasure of the appointing authority.

All securities are purchased under the authority of Government Code Section 16430 and 16480.4. The State Treasurer's Office takes delivery of all securities purchased on a delivery versus payment basis using a third party custodian. All investments are purchased at market, and a market valuation is conducted monthly.

Additionally, the PMIA has Policies, Goals and Objectives for the portfolio to make certain that our goals of Safety, Liquidity and Yield are not jeopardized and that prudent management prevails. These policies are formulated by investment staff and reviewed by both the PMIB and the LIAB on an annual basis.

The State Treasurer's Office is audited by the Bureau of State Audits on an annual basis and the resulting opinion is posted to the STO website following its publication. The Bureau of State Audits also has a continuing audit process throughout the year. All investment and LAIF claims are audited on a daily basis by the State Controller's Office as well as an in-house audit process involving three separate divisions.

Under Federal Law, the State of California cannot declare bankruptcy, thereby allowing the Government Code Section 16429.3 to stand. This Section states that “moneys placed with the Treasurer for deposit in the LAIF by cities, counties, special districts, nonprofit corporations, or qualified quasi-governmental agencies shall not be subject to either of the following: (a) transfer or loan pursuant to Sections 16310, 16312, or 16313, or (b) impoundment or seizure by any state official or state agency.”

During the 2002 legislative session, California Government Code Section 16429.4 was added to the LAIF’s enabling legislation. The Section states that “the right of a city, county, city and county, special district, nonprofit corporation, or qualified quasi-governmental agency to withdraw its deposited moneys from the LAIF, upon demand, may not be altered, impaired, or denied in any way, by any state official or state agency based upon the state’s failure to adopt a State Budget by July 1 of each new fiscal year.”

The LAIF has grown from 293 participants and \$468 million in 1977 to 2,750 participants and \$19.8 billion in 2004.

State Treasurer's Office  
Local Agency Investment Fund  
P.O. Box 942809  
Sacramento, CA 94209-0001  
(916) 653-3001  
<http://www.treasurer.ca.gov/laif>

---

---

# Board Members

---

---

## Local Investment Advisory Board

**Chairman:** PHIL ANGELIDES  
State Treasurer

**Members:** RUSS COCHRAN BRANSON  
Finance Director/Treasurer  
City of Roseville

PATRICIA ELLIOTT  
Treasury Manager/Deputy Treasurer  
Eastern Municipal Water District

BYRON SCORDELIS  
President  
Greater Bay Bancorp

LESLIE WELLS  
Vice President  
Union Bank of California  
Capital Markets Group

## Pooled Money Investment Board

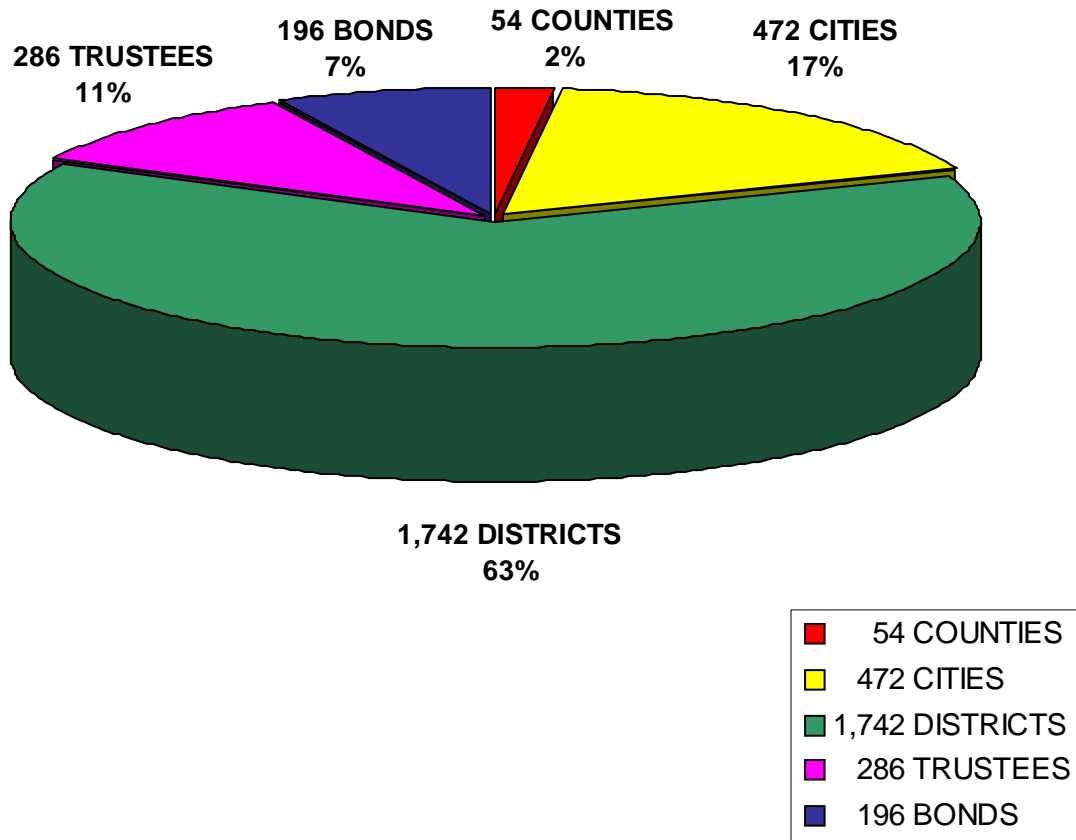
**Chairman:** PHIL ANGELIDES  
State Treasurer

**Members:** STEVE WESTLY  
State Controller

DONNA ARDUIN  
Director of Finance

# LOCAL AGENCY INVESTMENT FUND

Participation as of 9/30/04  
2,750 Agencies



**PHIL ANGELIDES  
TREASURER  
STATE OF CALIFORNIA**

**INVESTMENT DIVISION SELECTED INVESTMENT DATA  
ANALYSIS OF THE POOLED MONEY INVESTMENT ACCOUNT PORTFOLIO  
(000 OMITTED)**

September 30, 2004			
<u>TYPE OF SECURITY</u>	AMOUNT	PERCENT	PERCENTAGE CHANGE FROM PRIOR MONTH
<b>Government</b>			
Bills	\$ 2,464,369	4.86	-0.01
Bonds	0	0	
Notes	4,608,280	9.09	-0.22
Strips	0	0	0
<b>Total Governments</b>	<b>\$ 7,072,649</b>	<b>13.95</b>	<b>-0.23</b>
<b>Federal Agency Coupons</b>	<b>\$ 4,853,077</b>	<b>9.57</b>	<b>+0.31</b>
<b>Certificate of Deposits</b>	<b>7,840,048</b>	<b>15.47</b>	<b>-0.52</b>
<b>Bank Notes</b>	<b>200,000</b>	<b>0.39</b>	<b>-0.30</b>
<b>Bankers' Acceptances</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Repurchases</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Federal Agency Discount Notes</b>	<b>8,966,696</b>	<b>17.68</b>	<b>-1.92</b>
<b>Time Deposits</b>	<b>6,225,295</b>	<b>12.28</b>	<b>+0.15</b>
<b>GNMAs</b>	<b>404</b>	<b>0</b>	<b>0</b>
<b>Commerical Paper</b>	<b>7,849,365</b>	<b>15.48</b>	<b>+5.38</b>
<b>FHLMC/REMICS</b>	<b>354,062</b>	<b>0.70</b>	<b>-0.02</b>
<b>Corporate Bonds</b>	<b>1,639,729</b>	<b>3.24</b>	<b>+0.22</b>
<b>Pooled Loans</b>	<b>4,645,734</b>	<b>9.16</b>	<b>-0.19</b>
<b>GF Loans</b>	<b>1,054,400</b>	<b>2.08</b>	<b>-2.88</b>
<b>Reversed Repurchases</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total (All Types)</b>	<b>\$ 50,701,459</b>	<b>100.00</b>	

Average Life of Portfolio as of September 30, 2004 is 182 Days



---

# Description of Authorized Securities

---

## **U.S. TREASURY BILLS**

Short term direct debt obligations issued by the United States Treasury and backed by the full faith and credit of the United States. Maturities are three-months and six-months auctioned weekly on Mondays, with payment due the following Thursday. 52-week Bills are auctioned every four weeks. Cash Management Bills are issued at irregular intervals with maturities ranging from a few days to about six months. Bills offer the Investment Division (referred herein as "Investor") extreme safety and liquidity. Because of this, the Treasury Bill market is often a haven for cash when national and international nervousness occurs. This may be anything from rumored strains in the banking industry to the political situation in the Middle East. Independence of action and constant economic monitoring and geopolitical evaluation are necessary to avoid market risks resulting in unwanted losing Bill positions.

## **U.S. TREASURY STRIPS**

Originally issued by the United States Treasury in complete form as principal and interest obligations. Strips, or Zero's as they are often referred, are the result of separating the interest obligation from the principal and trading the body of the bond and the individual coupon obligations as separate securities. It is the investor's responsibility to recognize the corpus or the coupon, the availability of book-entry or definitive form (physical), and the spreads that result from these characteristics. An uninformed investor may end up buying a physical corpus at a rate reflecting a book-entry coupon, since these securities appear to be generic in description. Not only is the investor buying a Volkswagon at Cadillac prices, but he will also create a failed transaction when and if he decides to trade the item in the open market.

## **TREASURY SECURITIES**

Direct obligations of the United States Government issued by the Treasury by auction process. The issues include, but are not limited to, two-year notes, three-year notes, five-year notes, ten-year notes, and thirty-year bonds. These auctions occur monthly, mid-quarterly, and quarterly. It is the investor's responsibility to monitor auction announcements, size of the auction, new money, amount of paydowns, domestic interest, foreign interest, domestic retail interest, and potential trading range of the issue in the post-auction market. Lack of attention and improper evaluation can result in the loss of optimum investment return.

## **SECURITIES OF GOVERNMENT-SPONSORED ENTERPRISES, FEDERAL AND OTHER AGENCIES, AND INTERNATIONAL INSTITUTIONS**

Like Treasury obligations, these securities generally are issued under the authority of an act of Congress. A few are backed by the full faith and credit of the United States, many are guaranteed by the Treasury or supported by the issuing agency's right to borrow from the Treasury, but some lack any formal governmental backing. Some of the issuing entities are privately owned; others are wholly governmental. Following is a list of various obligations authorized by statute; Farm Credit System, including Banks for Coops, Federal Intermediate Credit Banks, Federal Land Banks, Farm Credit Consolidated Systemwide Discount Notes, Federal Farm Credit Banks Consolidated Systemwide Bonds, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Discount Notes and Debentures, Federal National Mortgage Association, Student Loan Marketing Association, United States Postal Services,

FHA Debenture obligations, Government National Mortgage Association, Export-Import Bank of the United States, Farmers Home Administration, Maritime Administration, Small Business Administration, Tennessee Valley Authority, Asian Development Bank, Commodity Credit Corporation (CCC), Inter-American Development Bank, and International Bank for Reconstruction and Development (World Bank). It is the investor's responsibility to monitor value for spreading these agencies one to the other, to evaluate the credit worthiness of those non-government guaranteed programs, and to be informed of the financing calendar of all agency issues. The extensive list of eligible agencies herein mentioned is testimony to the research and analysis necessary to maintain a risk-free agency portfolio reflecting the optimum return.

### **CERTIFICATES OF DEPOSIT**

Negotiable certificates in denominations of \$100,000.00 or more. They are issued by commercial banks and thrift institutions against funds deposited for specified periods of seven days or longer and earn specific rates of interest. Major banks and thrifts also issue variable rate CD's with maturities of up to five years. The rate, which is adjusted every 30, 90, or 180 days, usually includes a fixed premium over the composite secondary market rate for major bank CD's, as compiled and published by the Federal Reserve Bank of New York. Also included in this authority is the Yankee CD. Yankee CD's are U.S. dollar-denominated CD's issued by foreign banks domiciled in the United States. Canadian, French, British, German, Japanese, Swiss, and Australian, Dutch banks are active participants. It is the investor's responsibility to maintain a credit watch on global, as well as a domestic level. Considerations such as political stability, governmental control of the industry (energy loans, agricultural loans, commercial real estate loans, etc.), loan exposure to troubled countries (LDC's), and net worth and capitalization. In addition to assessing the relative value of one bank to another, the relative value to CD's in general against the value of other investment items must be considered. When considering variable or floating rate CD's, the investor must determine the coupon reset duration as well as the original spread from the posted composite based on his expectation of future rate direction. If the investor assumes that interest rates will fall shortly, he would opt for a long rate reset period. If this assumption is incorrect, the Pool is invested at a present rate for an extended period of time, while other comparable rates rise. The security then is not earning an optimum return, and indeed could result in a loss, if the need to liquidate should arise. It should be noted that the domestic banks and thrift institutions are able to guarantee \$100,000.00 on each deposit through the Federal Depositor Insurance Corporation and the Savings Association Insurance Fund, and that there is no such guarantee on Yankee CD's. This is a minimal guarantee, considering that many millions are invested in these instruments. Although banks and thrifts have either closed or been directed to merge for credit purposes in the past, the Pool has not experienced any lost revenues due to default or delayed payments of maturing items. This is directly attributed to the investor's research, analysis, evaluation, and forecasting abilities when reviewing the stability of the banking and thrift industries.

### **BANKER'S ACCEPTANCES**

A unique credit instrument used to finance both domestic and international self-liquidating transactions. By definition, it is a draft or bill of exchange, whether payable in the United States or abroad and whether payable in dollars or some other currency, accepted by a bank or trust company, or corporation engaged generally in the business of granting bankers' acceptance credits. Consider a coffee processor in the United States who wishes to finance the importation of Colombian coffee on an acceptance basis. The American importer, after negotiating with the Colombian exporter, arranges for his American commercial

bank to issue an irrevocable letter of credit in favor of the exporter. The letter of credit specifies the details of the shipment and states that the Colombian exporter may draw a time draft for a certain amount on the American bank. The Colombian exporter draws a draft on the American bank and negotiates the draft with his local bank, receiving immediate payment. The Columbian bank then forwards the draft to the United States for presentation to the bank that issued the letter of credit. This bank stamps the draft "Accepted", thus incurring an obligation to pay the draft at maturity. The importer is then able to process and sell the coffee. The importer is obligated to deposit the proceeds of the coffee sales at the accepting bank in time to honor the acceptance. At maturity, the acceptance is presented for payment by its owner, and the transaction is completed. The investor currently has legislated authority to deal in both domestic and foreign acceptances. In addition to domestic banks, Japanese, French, English, Mexican, German, Dutch, Swiss, Australian, and Canadian banks are now active, to varying degrees, in the foreign acceptance market. The investor's responsibilities concerning bankers' acceptances, both foreign and domestic, are parallel to those responsibilities involved with trading CD's. However, one major difference concerning default should be considered. The risk of CD default jeopardizes the principal invested. In the case of an acceptance default, not only is the principal at risk, but also the investor must be prepared to take possession, process, and sell the shipment involved in the import-export transaction.

### **REPURCHASE AGREEMENTS**

A Repurchase Agreement consists of two simultaneous transactions. One is the purchase of securities by an investor from a bank or dealer. The other is the commitment by the bank or dealer to repurchase the securities at the same price at some mutually agreed future date. The investor's responsibilities are compounded in this type of transaction. Not only must the investor evaluate and analyze the collateral used for credit-worthiness and marketability, he must also evaluate and analyze the bank or dealer with whom the agreement was made. A default by the bank or dealer to complete the dual transaction will result in the forfeiture of the collateral. It is imperative to accept quality securities and to monitor their value to avoid under collateralization in the event of default. Knowledge of the dealer community in general and the stability of the participating bank or dealer in particular are major responsibilities of the investor.

### **AGENCY DISCOUNT NOTES**

Unsecured general obligations of the issuing agency with maturities ranging from 1 day to 360 days. This portfolio serves as a tandem or alternative trading portfolio to the treasury bill portfolio. As with the agencies mentioned earlier, credit worthiness, amount outstanding, and new issues available are to be considered when evaluating a trade in Discount Notes, as well as understanding the relative value of one issue to the other. A determination also must be made based on market monitoring and spread analysis as to the optimum moment to swap between the Bill and Discount Note portfolios.

### **TIME DEPOSITS**

Time Deposits are interest-bearing deposits with specific maturities negotiated with California banks, savings and loans and credit unions. These deposits are secured by collateral pledged by the financial institution and in compliance with the Government Code. Appropriate collateralization levels are monitored on a regular basis. In addition, financial institutions are evaluated for credit criteria.

## **MORTGAGES**

FHLMC PC, FHLMC GMC, GNMA PC are mortgage participation certificates representing undivided interests in conventional or FHA/VA mortgages underwritten and previously purchased by FHLMC. FHLMC passes through to each certificate holder every month a pro rata share of the principal and interest payments collected on the mortgages in the underlying pool, including pre-payments. FHLMC GMCs represent undivided interest in conventional residential mortgages previously underwritten and purchased by FHLMC. GMCs pay principal annually in guaranteed minimum amounts and interest semi-annually. There are many considerations when dealing in the mortgage markets. Since paydowns may vary, resulting in maturities that are hard to determine, portfolio accountability must be analyzed. Fast-paying premium bonds would result in a lower return, since the principal would pay down at a rate faster than the amortization of premium. Fast-paying discount bonds, in contrast, would enhance the return. The rate of paydown has a direct relationship with the prevailing interest rate environment. It is the duty of the investor to evaluate the economy and form a sound and correct scenario to avoid detrimental returns. Apart from portfolio impact, there are a variety of concerns to address when dealing in the mortgage market. Geographic location of the Mortgages included in the pool also serves to determine the paydown rate. It has been established that certain areas of the country are more transitory, resulting in more frequent sales and resales of single family housing. This information, when used in tandem with coupon rate information will not only avoid a detrimental portfolio impact, but will enhance the performance of the mortgage holdings.

## **CORPORATE BONDS**

Secured and unsecured medium term debt issued by privately or publicly held banks, holding companies, corporations, or institutions for the purpose of increasing capital, plant and equipment purchase, re-tooling, or other related expenditures. Currently, there are more than thirty authorized names available for investment consideration. It is the investor's responsibility to direct the research and analysis essential to corporate trading. Since most issues purchased are unsecured debt, expert credit analysis is of utmost importance. Also necessary is the ability to customize, or "create from scratch", a note or bond with unique characteristics whose sole purpose is portfolio yield enhancement. This custom debt instrument, generally a corporate issue, is known as a private placement, and often involves the Investor in negotiations with Chief Executive Officers, Chief Financial Officers, and General Counsel. Often these negotiations cover several weeks, and require a specific knowledge of legal requirements and securities regulations. Past trades have been announced nationally in the Wall Street Journal. Since most corporate issues are medium to long term, five years to fifteen years, the weighted impact on a portfolio with an average life of less than two years can be significant. It is essential for the investor to make a complete credit analysis, to conduct earnest negotiations, and to tie them all to a pre-formulated economic scenario compatible with current portfolio needs and cash availability.

## **COMMERCIAL PAPER**

The market name for the short-term unsecured promissory notes issued by various economic entities in the open market to finance certain short-term credit needs. In addition to providing a source of seasonal working capital, commercial paper is increasingly being used as a means of interim financing of major construction projects such as bank buildings, ships, pipelines, nuclear fuel cores, and plant expansion. Presently, approximately 100 entities are eligible investments for the Pooled portfolio. These represent a variety of industrial companies, utilities, commercial bank holding companies, finance companies, insurance companies, and savings and loan associations.

The investor's responsibility is basically the same as that of corporate bonds, since commercial paper is essentially a short-term corporate bond with a maturity of 1 day to 270 days. However, commercial paper is the only authorized investment with restrictions pertaining to the amount eligible for investments. Since no more than 10% of any one issuer's outstanding may be held by the Pool, the investor must maintain a working knowledge of the issuing status of all eligible entities. He must also keep in mind the ratings of each issuer and how each issuer trades in relation to another, as well as the relative value spread to other investment vehicles.

## **REVERSE REPURCHASES**

Reverse Repurchase Agreements, technically called matched sales-purchase agreements, are essentially the mirror image of RPs. In this instance, the investor is the owner of the collateral, and the bank or dealer is the lender of money. All other aspects remain identical. Again, the investor's responsibilities are two-fold, as the creditworthiness of the bank or dealer is still an essential consideration. Additionally, the investor now must arbitrage or re-invest the money received on the transaction into another security for a positive return. The new investment must be secure from default, yet of lesser quality to create a spread. Furthermore, the new investment must mature coincidentally with the Reverse Transaction, or a cash shortage may occur. If the maturity is staggered from the Reverse transaction, the investor must now address the mismatch as it applies to the now-altered cash forecast.

## **SECURITY LOANS**

Portfolio issues are loaned to authorized banks or dealers for a pre-arranged fee. In turn, securities representing at least 102% of the market value of the issues loaned are received as collateral for the loan. As long as maintenance is continued on the collateral side, the risk is minimal. A similar program is put out on contract by the Retirement system, but this office organizes, negotiates, and maintains the loan program exclusively.

## **BANK NOTES**

Bank Notes are senior, unsecured promissory notes issued in the United States on either an underwritten or continuously-offered basis by domestic commercial banks. The Notes represent senior debt of the bank which ranks *pari passu* with all other senior obligations of the bank, except deposit liabilities or obligations that are secured or subject to any priorities or preferences.

Bank Notes should not be confused with Medium-Term Notes ("MTNs") or other securities issued by domestic bank holding companies ("BHCs"). Bank Notes are exempt from SEC registration under Section 3(a)(2) of the Securities Act of 1933. They are classified as "Other Borrowings" on the bank's balance sheet, while Deposit Notes and CDs are classified as "Deposits," Bank Notes are not deposits and are not insured by the Federal Deposit Insurance Corporation ("FDIC") or any other insurer.

## NOTES TO MONTHLY SELECTED INVESTMENT DATA

**Reverse Repurchase** - The temporary sale of owned securities, with the simultaneous agreement to repurchase the same securities at a predetermined cost and rate on a specified future date.

The Pooled Money Investment Account from time to time enters into Reverse Repurchase Agreements with major pre-approved securities dealers. The intent is to earn incremental interest for pool participants. Because it is viewed as incremental, earnings derived from reverses are never projected or anticipated.

All reverses are in compliance with Government Code Sec. 16480.4, and are further discussed in the Treasurer's Statement of Investment Policies, Goals and Objectives.

**AB 55 Loans** - Named for Assembly Bill 55, these loans are made from the Pool to state agencies which have pre-approved authority to issue bonds for specific projects. The AB 55 loan program allows an agency to borrow money for up-front and progress expenses when funding a specific project. Toward the end of the project construction, the already approved bond issue is brought to market, the proceeds of which are used to pay off principal and interest due on the AB 55 loan. This method eliminates the need for an arbitrage tracking system, had the bonds been sold "up front." The maximum term for AB 55 loans is 364 days, with many retired earlier.

**General Fund Loans** - Loans made by the Pool to the General Fund in anticipation of evening out cash flow. The average life of these loans is well below 30 days. Unlike the on-going AB 55 loan program, General Fund loans are much more infrequently requested.

Both AB 55 and General Fund Loans have the following characteristics:

1. Amount available for loans is determined by the State Controller and EXCLUDES certain trust monies, such as LAIF balances;
2. LAIF participants do share in the interest income paid to the Pool on each loan balance;
3. The decision to approve these loans rests in the authority of the Pooled Money Investment Board;
4. A predetermined maximum total loan balance is capped as a specific percentage of identified borrowable resources as determined by the State Controller.
5. No surplus monies may be loaned if such a loan would inhibit carrying out the purpose for which the monies were originally designated.
6. Since the granting of these loans is not an investment function, the loans (AB 55, GF) are not included in records of daily investment activity.
7. Since interest is commingled with other investment revenue, both AB 55 and General Fund loans are included in Selected Data Reports and portfolio accountability.
8. The total monies in AB 55 and General Fund loans are figured into the Portfolio book value when reporting portfolio size and yield.

**State of California**  
**Pooled Money Investment Account**  
**Market Valuation**  
**09/30/04**

Description	Carrying Cost Plus		Fair Value	Accrued Interest
	Accrued Interest	Purch. Amortized Cost		
United States Treasury:				
Bills	\$ 2,464,369,013.88	\$ 2,475,337,125.00	\$ 2,474,707,600.00	NA
Notes	\$ 4,608,280,081.14	\$ 4,607,596,230.27	\$ 4,590,096,500.00	\$ 45,541,393.75
Federal Agency:				
SBA	\$ 575,098,621.97	\$ 575,037,316.15	\$ 567,821,764.13	\$ 1,552,692.41
MBS	\$ 351,156,251.30	\$ 351,156,251.30	\$ 344,554,681.37	\$ 1,577,770.68
Bonds	\$ 4,277,978,304.40	\$ 4,277,199,797.46	\$ 4,260,534,504.60	\$ 37,561,937.57
Floater	\$ -	\$ -	\$ -	\$ -
Discount Notes	\$ 8,966,695,867.01	\$ 9,010,215,328.52	\$ 9,005,977,286.70	NA
FHLMC PC	\$ 2,905,913.97	\$ 2,905,913.97	\$ 3,155,611.86	\$ 46,766.52
GNMA	\$ 403,634.31	\$ 403,634.31	\$ 461,506.86	\$ 3,982.95
Bankers Acceptances	\$ -	\$ -	\$ -	NA
Bank Notes	\$ 200,000,000.00	\$ 200,000,000.00	\$ 199,774,537.00	\$ 1,217,000.00
CDs	\$ 7,840,048,138.37	\$ 7,840,048,138.37	\$ 7,834,879,644.20	\$ 32,650,066.73
Commercial Paper	\$ 7,849,364,864.67	\$ 7,866,529,629.38	\$ 7,864,407,760.83	NA
Corporate:				
Floater	\$ 137,588,934.36	\$ 137,588,934.36	\$ 137,466,061.30	\$ 276,913.24
Bonds	\$ 1,502,139,782.93	\$ 1,501,421,489.45	\$ 1,497,469,642.99	\$ 20,381,158.08
Repurchase Agreements	\$ -	\$ -	\$ -	NA
Reverse Repurchase	\$ -	\$ -	\$ -	\$ -
Time Deposits	\$ 6,225,295,000.00	\$ 6,225,295,000.00	\$ 6,225,295,000.00	NA
AB 55 & GF Loans	\$ 5,700,134,314.11	\$ 5,700,134,314.11	\$ 5,700,134,314.11	NA
<b>TOTAL</b>	<b>\$ 50,701,458,722.42</b>	<b>\$ 50,770,869,102.65</b>	<b>\$ 50,706,736,415.95</b>	<b>\$ 140,809,681.93</b>

Fair Value Including Accrued Interest

\$ 50,847,546,097.88

Repurchase Agreements, Time Deposits, AB 55 & General Fund loans, and Reverse Repurchase agreements are carried at portfolio book value (carrying cost).

The value of each participating dollar equals the fair value divided by the amortized cost **(.998736821)**.

As an example: if an agency has an account balance of \$20,000,000.00, then the agency would report its participation in the LAIF valued at \$19,974,736.42 or \$20,000,000.00 x .998736821.

## PAR VALUES MATURING BY DATE AND TYPE

### Maturities in Millions of Dollars

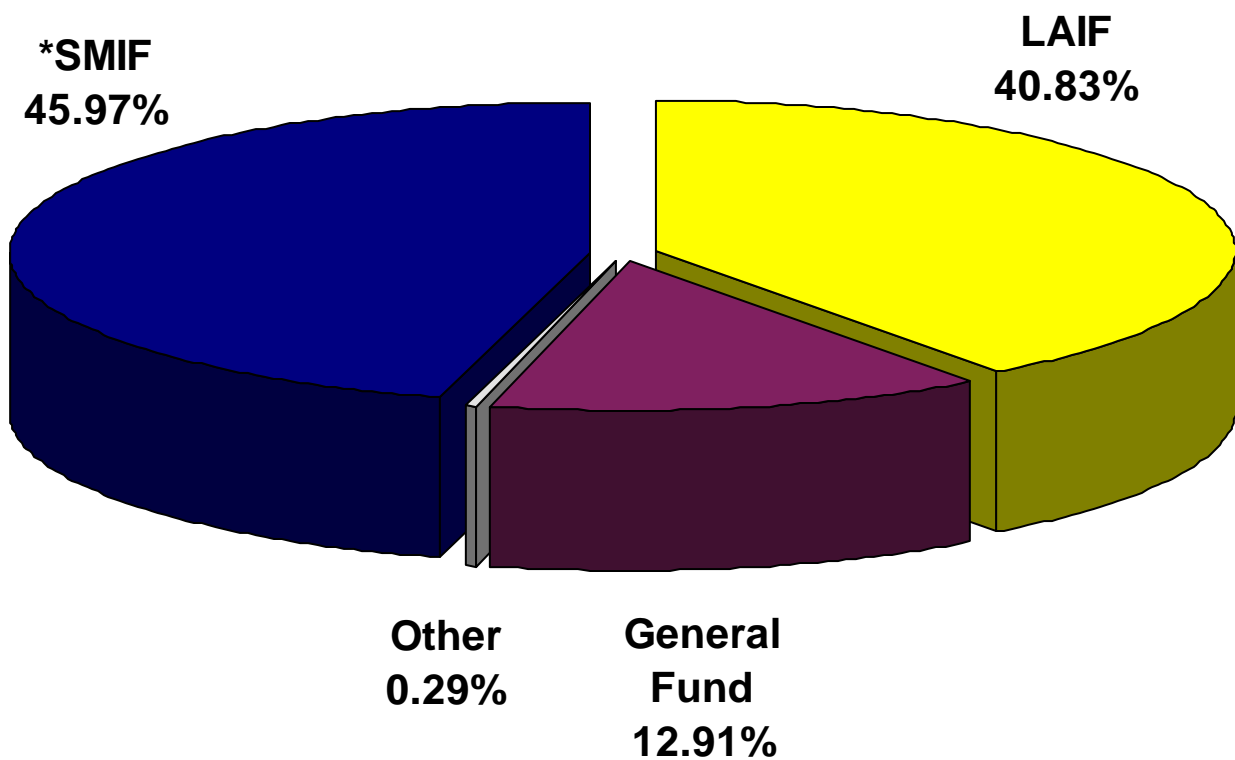
ITEM	1 day to 30 days	31 days to 60 days	61 days to 90 days	91 days to 120 days	121 days to 150 days	151 days to 180 days	181 days to 210 days	211 days to 270 days	271 days to 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 year/out
TREASURY	\$ 1,000	\$ 1,600		\$ 380			\$ 150	\$ 2,000	\$ 200	\$ 1,725			
REPO													
TDs	\$ 1,702	\$ 1,065	\$ 1,328	\$ 999	\$ 660	\$ 379	\$ 22	\$ 35	\$ 34				
AGENCY	\$ 2,283	\$ 2,878	\$ 1,574	\$ 200	\$ 200	\$ 3,025	\$ 250	\$ 640	\$ 250	\$ 2,539	\$ 863		\$ 3
BAs													
CP	\$ 2,565	\$ 610	\$ 2,060	\$ 1,272	\$ 1,186	\$ 200							
CDs + BNs	\$ 2,450	\$ 450	\$ 900	\$ 800	\$ 890	\$ 2,550							
CORP BND		\$ 50	\$ 59	\$ 94	\$ 92	\$ 22	\$ 15	\$ 160	\$ 291	\$ 631	\$ 172		
TOTAL													
\$ 45,503	\$ 10,000	\$ 6,653	\$ 5,921	\$ 3,745	\$ 3,028	\$ 6,176	\$ 437	\$ 2,835	\$ 775	\$ 4,895	\$ 1,035		\$ 3
PERCENT	22.0%	14.6%	13.0%	8.2%	6.7%	13.6%	1.0%	6.2%	1.7%	10.8%	2.3%	0.0%	0.0%

## Notes:

1. SBA Floating Rate Securities are represented at coupon change date.
2. Mortgages are represented at current book value.
3. Figures are rounded to the nearest million.
4. Does not include AB55 and General Fund loans



**SOURCE OF FUNDS**  
**Pooled Money Investment Account**  
**Quarter Ending 9/30/04**  
**Average Quarterly Balance**  
**\$51.035 Billion**



\*SMIF: Surplus Money Investment Account

# Office of the State Treasurer



## **Investment Policy for the Pooled Money Investment Account**

Approved by Treasurer Phil Angelides  
on  
November 5, 2003

**STATE TREASURER'S OFFICE**  
**STATEMENT OF PORTFOLIO MANAGEMENT GOALS,**  
**OBJECTIVES AND POLICIES**  
**POOLED MONEY INVESTMENT ACCOUNT-PMIA**

All state money held by the State Treasurer in Treasury trust accounts, and all money in the State Treasury,..... is appropriated for the purpose of investment and deposit as provided in article 4.5, Section 16480 et. al. of the Government Code.

**GOAL I. PORTFOLIO SAFETY/DIVERSIFICATION**

The pool will be managed to insure the safety of the portfolio by investing in high quality securities and by maintaining a mix of securities that will provide reasonable assurance that no single investment or class of investments will have a disproportionate impact on the total portfolio.

**OBJECTIVE:** In addition to the safety provided by investing in high quality securities, the safety of the portfolio is enhanced three ways by maintaining a prudent mix (i.e., diversity) of investments: 1) Spreading investments over different investment types minimizes the impact any one industry/investment class can have on the portfolio; 2) Spreading investments over multiple credits/issuers within an investment type minimizes the credit exposure of the portfolio to any single firm/institution; and 3) Spreading investments over various maturities minimizes the risk of portfolio depreciation due to a rise in interest rates. An unforeseen liquidity need allows no options if ***“all your eggs are in one basket.”***

**POLICY:** The portfolio shall contain a sufficient number and diversity of marketable securities so that a reasonable portion of the portfolio can be readily converted to cash without causing a material change in the value of the portfolio. Limitation and eligibility as to specific investments are to be determined by the Pooled Money Investment Board in the case of Commercial Paper, the Treasurer's Office Investment Committee in cases of new dealer authorizations and approval of new corporate investments, and the Treasury Investment Division in all other matters.

**GOAL II. LIQUIDITY**

The pool will be managed to ensure that normal cash needs, as well as scheduled extraordinary cash needs can be met. Further, adequate liquidity shall be maintained to ensure the unforeseen cash needs, whether ordinary or extraordinary.

**OBJECTIVE:** The pool will maintain a ***“cash flow generated”*** portfolio balance sufficient to cover specifically the one month prepared cash forecast, as well as generally the six month prepared

cash forecast. Further, sufficient marketable treasuries will be maintained to cover unforeseen withdrawals or delayed deposits.

**POLICY:** First priority is given to maintaining specific calendar liquidity, as dictated by the most recent cash forecast. Second priority is the maintenance of Treasury Bill positions adequate to meet unscheduled needs. Final consideration would be given to “*other*” investments deemed appropriate to portfolio maintenance, enhancement, or restructuring.

### **GOAL III. RATE OF RETURN**

Pooled investments and deposits shall be made in such a way as to realize the maximum return **consistent with safe and prudent treasury management.**

**OBJECTIVE:** The rate of return will be maintained on a consistent level representative of current market yield direction.

**POLICY:** Sales gains/losses will not be incurred to the point of radically altering the final quarterly apportionment rate. Significant sales gains will be offset for restructuring purposes to maintain consistent current return, as well as maximizing future portfolio performance. Significant sales losses shall be incurred only by consent of the Treasurer, or when sufficient profits negate the alteration of the apportionment rate. Range bonds and inverse yielding securities are examples of the types of investments which are precluded by the above stated objective.

### **CONFORMANCE**

All of the foregoing goals, objectives and policies shall be observed by the Chief of Investments or his designee, monitored by the Treasurer's Investment Committee, and reviewed continually by the Treasurer or his/ her assistant.

**STATE TREASURER'S OFFICE**  
**STATEMENT OF PORTFOLIO MANAGEMENT GUIDELINES**  
**POOLED MONEY INVESTMENT ACCOUNT-PMIA**

The State Treasurer's Investment Division has set forth a general declaration of portfolio goals, objectives and policies. Following are various guidelines necessary to the good faith observance of these policies.

**I. GUIDELINES FOR MAINTAINING SAFETY/DIVERSIFICATION**

There are few statutory limitations placed on individual categories of authorized investments. However, this does not entitle the investment staff to “*carte blanche*” participation in these security types. In the absence of direct statutory limitations, the “*prudent person rule*” shall be utilized by the investment staff. As market conditions change, altering credit risk, marketability, yield spreads, and securities availability, application of this rule shall govern any investment decision. This application shall be discussed as soon as time permits with the Chief of Investments. At the Chief of Investments determination, the situation may be discussed with the full investment committee or brought directly to the attention of the Treasury Management.

Following are various considerations/limitations as they pertain to specific investment types:

**A. *U.S. Treasury Securities***

- 1)      Maximum maturity:      Statutory:      30 years.  
   Policy:      5 years.
- 2)      Maximum par value, total portfolio:      None.
- 3)      Maximum par value per name:      None.
- 4)      Maximum par value per maturity:      None.
- 5)      Credit: Full faith and credit of the Federal Government.

Treasury Bills are maintained for liquidity, trading, and yield enhancement as the underlying security in a Reverse Repurchase transaction. Treasury strips and full coupon securities are purchased for average maturity preservation, liquidity, and trading.

**B. Federal Agency Securities**

- 1) Maximum maturity: Statutory: 30 years.  
Policy: 5 years.
- 2) Maximum par value, total portfolio: None.
- 3) Maximum par value per name: None.
- 4) Maximum par value per maturity: None.
- 5) Credit: Despite there being no statutory limitations concerning this category, prudent investment practice necessitates constant credit analysis of certain issuing agencies. Although there exists an implicit or explicit government guarantee of the various agency issues, market perception often limits the liquidity of these issues.

**C. Bankers Acceptances-Domestic/Foreign**

- 1) Maximum maturity: Statutory: None.  
Policy: 180 days.

(This maximum maturity is a criterion used to determine eligibility for purchase by the Federal Reserve. Our authority is based on the eligibility as determined by the Fed. However, since the Fed has discontinued its eligibility requirements and purchases, this criterion is no longer applicable. Currently, a majority of acceptances are created only for 180 days.)

- 2) Maximum par value, total portfolio: None.
- 3) Maximum par value per name: None.
- 4) Maximum par value per maturity: None.
- 5) Credit:
  - a) The history of the acceptance market is spotless on **“Failures to redeem.”** This is true even through the years of WW II.
  - b) Geopolitical location is of prime concern when considering potential candidates. Internal, as well as border political and economic stability of the host country are of prime concern.
  - c) Liquidity as far as both credit risk and marketability in the secondary level are addressed.
  - d) Although statutory authority does not limit eligibility according to ranking or rating, previously listed general criteria eliminate lesser credits.

**D. *Certificates of Deposits***

- 1) Maximum maturity: Statutory: None.  
Policy: 5 years.
- 2) Maximum par value, total portfolio: None.
- 3) Maximum par value per name: None.
- 4) Maximum par value per maturity: None.
- 5) Credit:
  - a) Criteria concerning loan make-up, LDC exposure, geographic location, market perceptions, and financial condition all serve to eliminate lesser names.
  - b) Liquidity as far as both credit risk and marketability in the secondary level are addressed. There must be a market for the name in which at least three major dealers will bid or offer at a given moment.

**E. *Collateralized Time Deposits***

- 1) Maximum maturity: Statutory: None.  
Policy: 5 years.
- 2) Maximum par value, total portfolio: None.
- 3) Maximum par value per name: Statutory: Shall not exceed the  
Policy: net worth of the institution.  
Same.
- 4) Maximum par value per maturity: None.
- 5) Credit: Institutions must be rated average or better, or above a “D”, by a recognized rating service utilized by the State Treasurer’s Office (STO) Investment Division, and must pass a credit evaluation by the STO Staff. This evaluation may include a review of such criteria as geographic location, market perception, loan diversity, management factors, overall fiscal soundness and the Community Reinvestment Act Rating of the institution. If, while holding a pool deposit, an institution is downgraded below acceptable levels by the rating agencies, the following steps shall be taken:

- a) Notify the Deposits Section to monitor collateral closely.
  - b) Review financials and update credit report.
  - c) Determine the appropriate plan of action which may include early termination of the time deposit, or allow the time deposit to mature.
- 6) Collateral must comply with Government Code, Chapter 4, Bank Deposit Law Section 16500 (et seq.) and the Savings and Loan Association and Credit Union Deposit Law G.C. Section 16600 (et seq.).

**F. Commercial Paper**

- 1) Maximum maturity:      Statutory:      180 days.  
Policy:      180 days.
- 2) Maximum par value, total portfolio:      Statutory:      30% of the current portfolio.  
Policy:      Same.
- 3) Maximum par value per name:      Statutory:      10% of outstanding  
Policy:      Same.
- 4) Maximum par value per maturity:      None.
- 5) Credit: Commercial paper eligible for investment under this subdivision must be rated ***“Prime”*** quality as defined by a nationally recognized organization which rates such securities and must be issued by a corporation, trust or special purpose corporation approved by the Pooled Money Investment Board. Furthermore, in the case of general corporations, they must be organized and operating within the United States and have total assets in excess of five hundred million dollars (\$500,000,000). In the case of trusts or special purpose corporations, they must be organized within the United States and have programwide credit enhancements including, but not limited to, overcollateralization, letters of credit or surety bonds.



**G. Corporate Bonds/Notes**

- 1) Maximum maturity: Statutory: None.  
Policy: 5 years.
- 2) Maximum par value, total Portfolio: None.
- 3) Maximum par value per name: None.
- 4) Maximum par value per maturity: None.
- 5) Credit: Securities eligible for investment under this subdivision must be issued by corporations (including banks) organized and operating within the United States and shall be within the top three ratings of a nationally recognized rating service.

**H. Repurchases (RP) and Reverse Repurchase (RRP)**

- 1) Maximum maturity: Statutory: None.  
Policy: 1 year.
- 2) Maximum par value, total Portfolio: Statutory: None.  
Policy: RRP is limited to 10% of the current portfolio.
- 3) Maximum par value per name: None.
- 4) Maximum par value per maturity: None.
- 5) Credit:
  - a) Must have on file, a signed Security Loan Agreement and/or General Repurchase Agreement. (Repurchase Agreement may be either STO General Agreement or PSA Standard Agreement.)
  - b) Reverses and reverse repurchases are only done with long established and/or well capitalized broker-dealers.

The Reverse Repurchase Program is designed to augment the overall portfolio yield in a safe and prudent manner. It is not viewed as a tool with which to effect specific portfolio moves or plan major market strategy. The portfolio carries reversed securities at negative book and the re-investment at positive book. As a result, the reported size of the portfolio represents the true cash participation of its members. All reverses are cash matched either to the maturity of the re-investment or an adequately positive cash flow date which is approximate to the maturity of the re-investment. For example, if cash flow is positive on January 27 and negative on January 31, then the reverse may mature on the 27th, and the re-investment may be taken to the 31st. Cash flow is evened out, and a positive spread is achieved. Only securities already held in the portfolio and unencumbered may

be reversed. No item purchased against reverse will be used as a reversible security while the original reverse is outstanding (i.e., the STO does not leverage one liability with another). The against reverse re-investment will be limited to maturities under one year, effectively limiting the appropriate securities to generic money market issues. Because of the role played by the Reverse Program in this office, customized or structured products are not considered appropriate re-investment candidates. All costs, earnings, and spreads are fixed at the beginning of each transaction.

## **II. GUIDELINES FOR MAINTAINING LIQUIDITY**

First priority will be the cash flow needs as reported on both the monthly and six month cash forecasts. These forecasts will be updated daily using the current investment input, as well as adjustment information provided by Cash Management personnel.

Sufficient Treasury securities will be maintained for unscheduled cash needs. It has been determined that Treasury Bills having maximum maturity of 1 year will be used for this purpose. Because of their Government guarantee, as well as the short maturity, the exposure to market risk is minimal.

Due to the make-up of the portfolio participants, an average maturity of 120 days to eighteen months will be maintained.

## **III GUIDELINES FOR MAINTAINING RATE OF RETURN**

Always keep in mind the need to provide a consistent rate of return not only to the quarterly participants of the pool, but the longer term depositors as well. It is often the case that investments made with long term deposits create the base rate to the portfolio. Since sales gains/losses impact the portfolio on a quarterly basis, large gains/losses are to be avoided. Failure to offset either gains or losses proportionately would result in a saw-toothed apportionment rate history. For this reason, extreme positions or styles of trading are prohibited.

An informal weekly meeting, with the Chief of Investments, Assistant Chief, and Investment Manager, will be held to discuss current investment philosophies and upcoming economic releases. Decisions of value and direction are made to accommodate the occurrence of all those events which might be considered reasonable and probable.

Although securities trading is allowed for purposes of enhancing portfolio return, specific limitations have been established to protect the portfolio rate of return:

- 1) Prior to taking a position, apparent value and size will be discussed between the Chief and Treasury Trader involved.
- 2) During a ***“when issued”*** (W.I.) period our long position shall never exceed the amount we are willing to purchase.
- 3) Short positions will not be taken at any time.
- 4) Trading positions are to be reported daily to the Chief of Investments.

**Changes to the  
State Treasurer's Office  
Investment Policy for the Pooled Money Investment Account**

**No changes**

# PMIA Average Monthly Effective Yields

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
1977	5.770	5.660	5.660	5.650	5.760	5.850	5.930	6.050	6.090	6.390	6.610	6.730
1978	6.920	7.050	7.140	7.270	7.386	7.569	7.652	7.821	7.871	8.110	8.286	8.769
1979	8.777	8.904	8.820	9.082	9.046	9.224	9.202	9.528	9.259	9.814	10.223	10.218
1980	10.980	11.251	11.490	11.480	12.017	11.798	10.206	9.870	9.945	10.056	10.426	10.961
1981	10.987	11.686	11.130	11.475	12.179	11.442	12.346	12.844	12.059	12.397	11.887	11.484
1982	11.683	12.044	11.835	11.773	12.270	11.994	12.235	11.909	11.151	11.111	10.704	10.401
1983	10.251	9.887	9.688	9.868	9.527	9.600	9.879	10.076	10.202	10.182	10.164	10.227
1984	10.312	10.280	10.382	10.594	10.843	11.119	11.355	11.557	11.597	11.681	11.474	11.024
1985	10.579	10.289	10.118	10.025	10.180	9.743	9.656	9.417	9.572	9.482	9.488	9.371
1986	9.252	9.090	8.958	8.621	8.369	8.225	8.141	7.844	7.512	7.586	7.432	7.439
1987	7.365	7.157	7.205	7.044	7.294	7.289	7.464	7.562	7.712	7.825	8.121	8.071
1988	8.078	8.050	7.945	7.940	7.815	7.929	8.089	8.245	8.341	8.397	8.467	8.563
1989	8.698	8.770	8.870	8.992	9.227	9.204	9.056	8.833	8.801	8.771	8.685	8.645
1990	8.571	8.538	8.506	8.497	8.531	8.538	8.517	8.382	8.333	8.321	8.269	8.279
1991	8.164	8.002	7.775	7.666	7.374	7.169	7.098	7.072	6.859	6.719	6.591	6.318
1992	6.122	5.863	5.680	5.692	5.379	5.323	5.235	4.958	4.760	4.730	4.659	4.647
1993	4.678	4.649	4.624	4.605	4.427	4.554	4.438	4.472	4.430	4.380	4.365	4.384
1994	4.359	4.176	4.248	4.333	4.434	4.623	4.823	4.989	5.106	5.243	5.380	5.528
1995	5.612	5.779	5.934	5.960	6.008	5.997	5.972	5.910	5.832	5.784	5.805	5.748
1996	5.698	5.643	5.557	5.538	5.502	5.548	5.587	5.566	5.601	5.601	5.599	5.574
1997	5.583	5.575	5.580	5.612	5.634	5.667	5.679	5.690	5.707	5.705	5.715	5.744
1998	5.742	5.720	5.680	5.672	5.673	5.671	5.652	5.652	5.639	5.557	5.492	5.374
1999	5.265	5.210	5.136	5.119	5.086	5.095	5.178	5.225	5.274	5.391	5.484	5.639
2000	5.760	5.824	5.851	6.014	6.190	6.349	6.443	6.505	6.502	6.517	6.538	6.535
2001	6.372	6.169	5.976	5.760	5.328	4.958	4.635	4.502	4.288	3.785	3.526	3.261
2002	3.068	2.967	2.861	2.845	2.740	2.687	2.714	2.594	2.604	2.487	2.301	2.201
2003	2.103	1.945	1.904	1.858	1.769	1.697	1.653	1.632	1.635	1.596	1.572	1.545
2004	1.528	1.440	1.474	1.445	1.426	1.469	1.604	1.672	1.771			

# PMIA Average Annual Yields

Fiscal Year	Rates	Fiscal Year	Rates
71/72	4.880	88/89	8.669
72/73	5.550	89/90	8.655
73/74	8.970	90/91	8.013
74/75	8.620	91/92	6.196
75/76	6.370	92/93	4.707
76/77	5.870	93/94	4.387
77/78	6.700	94/95	5.532
78/79	8.520	95/96	5.706
79/80	10.540	96/97	5.599
80/81	10.780	97/98	5.699
81/82	12.070	98/99	5.344
82/83	10.450	99/00	5.708
83/84	10.408	00/01	6.104
84/85	10.715	01/02	3.445
85/86	9.081	02/03	2.152
86/87	7.435	03/04	1.532
87/88	7.874		

# Local Agency Investment Fund Quarterly Apportionment Rates

	MARCH	JUNE	SEPTEMBER	DECEMBER
1977	5.68	5.78	5.84	6.45
1978	6.97	7.35	7.86	8.32
1979	8.81	9.10	9.26	10.06
1980	11.11	11.54	10.01	10.47
1981	11.23	11.68	12.40	11.91
1982	11.82	11.99	11.74	10.71
1983	9.87	9.64	10.04	10.18
1984	10.32	10.88	11.53	11.41
1985	10.32	9.98	9.54	9.43
1986	9.09	8.39	7.81	7.48
1987	7.24	7.21	7.54	7.97
1988	8.01	7.87	8.20	8.45
1989	8.76	9.13	8.87	8.68
1990	8.52	8.50	8.39	8.27
1991	7.97	7.38	7.00	6.52
1992	5.87	5.45	4.97	4.67
1993	4.64	4.51	4.44	4.36
1994	4.25	4.45	4.96	5.37
1995	5.76	5.98	5.89	5.76
1996	5.62	5.52	5.57	5.58
1997	5.56	5.63	5.68	5.71
1998	5.70	5.66	5.64	5.46
1999	5.19	5.08	5.21	5.49
2000	5.80	6.18	6.47	6.52
2001	6.16	5.32	4.47	3.52
2002	2.96	2.75	2.63	2.31
2003	1.98	1.77	1.63	1.56
2004	1.47	1.44	1.67	

# Local Agency Investment Fund Administrative Earnings (Cost)

QUARTER ENDING	PERCENTAGE OF EARNINGS (COST)	EQUIVALENT BASIS POINT VALUE
03/31/95	0.26	1.5
06/30/95	0.19	1.2
09/30/95	0.23	1.3
12/31/95	0.25	1.5
03/31/96	0.23	1.3
06/30/96	0.19	1.1
09/30/96	0.22	1.2
12/31/96	0.26	1.5
03/31/97	0.30	1.7
06/30/97	0.16	0.9
09/30/97	0.23	1.3
12/31/97	0.24	1.4
03/31/98	0.24	1.4
06/30/98	0.16	0.9
09/30/98	0.08	0.5
12/31/98	0.24	1.3
03/31/99	0.23	1.2
06/30/99	0.32	1.6
09/30/99	0.20	1.1
12/31/99	0.22	1.2
03/31/00	0.22	1.3
06/30/00	0.28	1.7
09/30/00	0.20	1.3
12/31/00	0.20	1.3
03/31/01	0.18	1.1
06/30/01	0.21	1.1
09/30/01	0.21	0.9
12/31/01	0.31	1.1
03/31/02	0.34	1.0
06/30/02	0.35	1.0
09/30/02	0.44	1.2
12/31/02	0.47	1.1
03/31/03	0.46	0.9
06/30/03	0.32	0.6
09/30/03	0.50	0.8
12/31/03	0.47	0.7
03/31/04	0.47	0.7
06/30/04	0.47	0.7
09/30/04	0.45	0.8

The law provides that reimbursements cannot exceed one-half of 1 percent of the EARNINGS of the fund per quarter. Listed above is the percentage of earnings (costs) per quarter.

---

# How to Calculate Quarterly Earnings & Apportionment

---

Following are three examples of how the apportionment of quarterly earnings is computed, based on 6/30/96 quarter-ending portfolio information.

The first example simply equates the information to a mathematical formula used to compute the earning rate for the entire pool. The formula is a true yield annualized calculation, which is also adjusted to reflect leap year, when necessary.

The second example, using the information derived from the portfolio and verified by calculation, breaks the numbers down to a LAIF percentage participation. As of 6/30/96, the LAIF balance represented 38.56432654% of the total pool.

The third example carries the breakdown further to reflect the individual participation, earnings, and apportionment of a single account in the LAIF. The process of determining the weighted deposits, as well as the final dollars credited, is outlined and adjusted to reflect any appropriate charges.



## QUARTERLY EARNINGS & APPORTIONMENT

(POOL)

D = Number of days in the quarter

E = Interest income  $\pm$  sales gain/loss

B = Average quarterly book total

R = Quarterly earnings rate

Quarterly earnings calculation

$$[E/D \times *365]/B = R \quad (*366 \text{ in a leap year})$$

For example purposes, figures for quarter ending 6/30/96 will be used throughout as follows:

$$D = 91$$

$$E = 383,440,553.06 + 170,705.67 = 383,611,258.73$$

$$B = 27,903,592,062.85$$

$$R = 5.529310$$

or stated as a formula:

$$[383,611,258.73/91 \times 366]/27,903,592,062.85 = 5.529310$$

\* Actual Apportionment Rate is figured after charges have been subtracted. The subtraction of charges results in the 5.518751% apportionment rate reported 6/30/96 for LAIF.

**QUARTERLY EARNINGS & APPORTIONMENT**

**(LAIF)**

Dollar days of pool = Book value x # of days in the quarter

$$27,903,592,062.85 \times 91 = 2,539,226,877,719.08$$

2,539,226,877,719.08 dollar days = 100% of pool

LAIF is 38.56432654% of the pool = 979,235,744,667.88 dollar days

D = 1 (Since the book value has been converted to 1 dollar day)

E = 38.56432654% x 383,611,258.73 = 147,937,098.46 (Less charges)

B = 979,235,744,667.88 (1 Dollar day)

R = 5.529310 (Less charges)

or stated as a formula:

$$[E/D \times 366]/B = R$$

$$[147,937,098.46 \times 366]/979,235,744,667.88 = 5.529310$$

(Less charges)

**QUARTERLY EARNINGS & APPORTIONMENT****(LAIF/PARTICIPANT)**

AGENCY: ABC Sanitation District

Beginning Balance: 3,575,000

	<u>Transaction Amount</u>	<u>Balance</u>
04/09/96	-377,000	3,198,000
04/28/96	+1,425,000	4,623,000
05/02/96	+377,000	5,000,000
06/02/96	-75,000	4,925,000
06/19/96	+75,000	5,000,000

Ending Balance: 5,000,000

04/01/96 - 04/09/96	8 Days x 3,575,000 =	28,600,000	Dollar day
04/09/96 - 04/28/96	19 Days x 3,198,000 =	60,762,000	Dollar day
04/28/96 - 05/02/96	4 Days x 4,623,000 =	18,492,000	Dollar day
05/02/96 - 06/02/96	31 Days x 5,000,000 =	155,000,000	Dollar day
06/02/96 - 06/19/96	17 Days x 4,925,000 =	83,725,000	Dollar day
06/19/96 - 06/30/96 inc.	<u>12 Days</u> x 5,000,000 =	<u>60,000,000</u>	Dollar day
	91 Days	406,579,000	Dollar day (Total)

406,579,000 Total dollar day  
x 0.00015078554349553 6/30/96 earnings ratio (on quarterly interest statement)  
61,306.24 Apportioned earnings

OR

$$D = 1$$

$$E = .0004152003 \times 147,937,098.46 \text{ (\% of LAIF x LAIF earnings)} = 61,423.53 \text{ (Less charges)}$$

$$B = 406,579,000 \text{ (1 Dollar day)}$$

$$R = 5.529310 \text{ (Less charges)}$$

$$[61,423.53/1 \times 366]/406,579,000 = 5.529310 \text{ (Less charges)}$$

### LAIF CHARGES

Total charges for LAIF for the quarter were 282,497.00.

ABC Sanitation District is .04152003% of LAIF.

ABC Sanitation District =  $.0004152003 \times 282,497.00 = \$117.29$  share of charges.

Apportionment will reflect this charge.

ABC Sanitation District computed earnings =	61,423.53
Less share of charges =	<u>-117.29</u>
Apportioned earnings =	61,306.24

Computed earning rate	5.529310
Less 117.29 charges	
Actual earning rate	5.51875129

# Frequently Asked Questions about LAIF

QUESTION	YES	NO	EXPLANATION
I. SECURITIES			
1. Does the pool provide a written statement of investment policy and objectives?	YES		
2. Does the statement contain:			
a. a description of eligible investment instruments?	YES		
b. the credit standards of investments?	YES		
c. the allowable maturity range of investments?	YES		
d. the maximum allowable dollar weighted average portfolio maturity?	YES		
e. the limits of portfolio concentration permitted for each type of security?	YES		
f. the policy on reverse repos?	YES		
3. Are changes in the policies communicated to the pool participants?	YES		
II. INTEREST			
Interest Calculations			
1. Does the pool disclose the following about yield calculations:			
a. Which methodology is used to calculate interest? (simple maturity, yield to maturity, etc.)			On dollars per day.
b. What is the frequency of interest payments?			Quarterly.
c. How is interest paid? (credited to principal at the end of the month, each quarter, mailed?)			Credited to principal at end of quarter.
d. How are gains/losses reported? (factored monthly or only when realized?)			When realized.

# Frequently Asked Questions about LAIF

QUESTION	YES	NO	EXPLANATION
Reporting			
1. Is the yield reported to participants of the pool monthly? (If not, how often?)	YES		
2. Are expenses of the pool deducted before quoting the yield?		NO	Expenses of the pool are deducted quarterly prior to interest allocation.
3. Is the yield generally in line with the market yields for securities in which you usually invest?	YES		
III. SECURITY			
1. Does the pool disclose safekeeping practices? (If yes, what are they?)	YES		Statute requires all instruments of title of all investments of the fund to remain in the Treasurer's vault or be held in safekeeping under control of the Treasurer in any federal reserve bank, or any branch thereof, or the Federal Home Loan Bank of San Francisco, with any trust company, or the trust department of any state or national bank.
2. Is the pool subject to audit by an independent auditor?	YES		
3. Is the copy of the audit available to participants?	YES		
4. Who makes the portfolio decisions?			State Treasurer, Investment Division staff.
5. How does the manager monitor the credit risk of the securities in the pool?			Written Statement of Policies, Goals, Objectives, annual independent market valuation.

# Frequently Asked Questions about LAIF

QUESTION	YES	NO	EXPLANATION
6. Is the pool monitored by someone on the board or a separate, neutral party external to the investment function to ensure compliance with written policies.	YES		Pooled Money Investment Board, Local Agency Advisory Board, Auditor General.
7. Does the pool have specific policies with regard to repurchase agreements? a. What are those policies?	YES		Government Code 16430/16480, Portfolio Management Goals, Objectives & Policies.
8. Does the pool report the portfolio's market value?	YES		Monthly. (Reporting purposes only, values are not adjusted for unrealized gains or losses.)
9. Does the pool disclose the following about portfolio valuations: a. The frequency with which the portfolio securities are valued? b. The method used to value the portfolio (cost, current value, or some other method)?	YES		Quarterly.  Amortized cost, current value.
IV. STATEMENTS			
1. Are statements for each account sent to participants? a. Do statements show balances and transactions?	YES  YES		
2. Does the pool distribute detailed reports of its holdings? (regularly or on request only?)	YES		On a regular monthly basis.
V. FEES			
1. Is there a written schedule of administrative costs? a. What are the fees?	YES		Statute 16429.1 requires administrative costs not to exceed 1/2 of 1% of earnings quarterly. However, the fees are directly correlated to the costs of operation only.

# Frequently Asked Questions about LAIF

QUESTION	YES	NO	EXPLANATION
b. How often are they assessed?			Quarterly.
c. How are they paid?			Prior to interest allocation.
d. Are there additional fees for wiring funds?		NO	
2. Are expenses deducted before quoting the yield?		NO	
VI. OPERATIONS			
1. Does the pool limit eligible participants?		NO	
a. What entities are permitted to invest in the pool?			Local governmental units, non-profit corporation whose membership is confined to public agencies or public officials, qualified quasi-governmental agencies.
2. Does the pool allow multiple accounts and subaccounts?		NO	
3. Is there a minimum or maximum account size?	YES		**\$40 million maximum \$5 thousand minimum unless bond proceeds.
4. Does the pool limit the number of transactions each month?	YES		
a. What is the number of transactions permitted each month?			**15 transactions per regular account.
5. Is there a limit on transaction amounts for withdrawals and deposits?	YES		
a. What is the minimum and maximum withdrawal amount permitted?			**\$40 million maximum \$ 5 thousand minimum.
b. What is the minimum and maximum deposit amount permitted?			**\$40 million maximum \$ 5 thousand minimum.



# Frequently Asked Questions about LAIF

QUESTION	YES	NO	EXPLANATION
6. Does the pool require one or more days notice for deposits and/or withdrawals?		NO	However, we ask that withdrawals of \$10 million or more give 24 hour notice.
7. Is there a cutoff time for deposits and withdrawals?	YES		Call by 10:00 a.m. for same day credit.
8. Are the funds 100% withdrawable at any time?	YES		
9. Are there procedures for making deposits and withdrawals?	YES		
a. What paperwork is required, if any?			Once resolution is authorized by governing body, and banking information has been filed, authorized caller needs PIN # and sending bank name for deposits plus receiving bank name and account # to be credited for withdrawals.
b. What are the wiring procedures?			Authorized caller needs PIN #, receiving bank name and account # to be credited for interbranch transfers or fed wires.
10. Can an account remain open with a zero balance?	YES		
11. Are confirmations sent following transactions?			Included as part of monthly statement.
** BOND PROCEEDS HAVE NO MAXIMUM DEPOSIT AMOUNT AND ARE MAINTAINED ON THIRTY DAY INCREMENTS.			

---

---

# Disclosure Statement

---

---

## **Portfolio Holdings: Derivatives, Structured Notes, and Asset-Backed Securities**

The Treasury Investment Division has received a number of inquiries concerning our various portfolio holdings. Questions involving structured notes, derivative products, and asset-backed securities are the most notable. We have found that the lack of acceptable definitions regarding these financial products has led to confusion and disagreement with our reported positions.

In an effort to clarify the information provided in our monthly statements, we would like to share with you our understanding of these financial products, as defined by the U.S. General Accounting Office (GAO).

In a recent survey of sales practices for these financial products the GAO provided definitions and examples of what they considered 1) plain vanilla OTC derivatives, 2) more complex OTC derivatives, 3) structured notes, and 4) asset-backed securities. Following are the GAO definitions, as well as the State of California Treasurer's holdings in each category as of September 30, 2004:

\*1. Plain Vanilla OTC Derivative Products

A derivative product is a financial instrument whose market value is derived from a reference rate, index, or value of an underlying asset. OTC derivatives are privately negotiated contracts and are not traded on organized exchanges.

U.S. \$ \_\_\_\_\_ Ø \_\_\_\_\_ As of: 9/30/04

\*2. More Complex OTC Derivative Products

Other more complex OTC derivatives have at least one of the following characteristics:

- a. Their prices tend to be difficult to obtain because they are often available from only a few dealers.
- b. The payments required by the derivative contract are calculated on the basis of more than one interest rate, currency, asset, or other factor.
- c. The derivative contract has terms that are not determined until some future date.
- d. The contract involves a term that acts as a multiplier or increases the leverage of the rate(s) used to compute payments.
- e. The contract CAN entail potentially unlimited risk.

U.S. \$ \_\_\_\_\_ Ø \_\_\_\_\_ As of: 9/30/04

**\* The Pooled Money Investment Account Portfolio has not invested in, nor will it invest in, Derivative Products as defined in General Accounting definitions #1 & #2. The GAO separation of derivatives, structured notes, and asset-backed securities is consistent with GASB 94-1.**

### 3. Structured Notes

Structured notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options. They are issued by corporations and by government-sponsored enterprises such as the Federal National Mortgage Association and the Federal Home Loan Bank System.

U.S. \$137.315 million As of: 9/30/04

### 4. Asset-Backed Securities

Asset-backed securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMOs) or credit card receivables.

U.S. \$929.503 million As of: 9/30/04

### Securities Accountability

1) Vanilla Derivatives Ø

2) Complex Derivatives Ø

3) Structured Notes

a.	Callable Agency	\$	00.000 million
b.	3 month LIBOR Agency Floater	\$	00.000 million
c.	3 month LIBOR Corporate Floater	\$	137.315 million
d.	2 year CMT Corporate Floater	\$	00.000 million
e.	3 month T-Bill Agency Floater	\$	00.000 million
f.	3 month T-Bill Corporate Floater	\$	00.000 million

4) Asset-Backed

a.	Small Business Administration Pools	\$ 575.037 million
b.	Agency CMOs	\$ 351.156 million
c.	GNMA Pools	\$ 0.404 million
d.	FHLMC PC Pools	\$ 2.906 million

Total Portfolio As of: 9/30/04           \$50,701,458,722.42

Financial Products as a percent of portfolio: 2.104%

---

# Is The Pool Insured?

---

It is important to recognize that there are two applications of this question.

**1. Insurance applied to credit risk of investment holdings.**

There is no insurance applied to individual securities, sectors of the portfolio, or the portfolio in general. However, due to the characteristics of the PMIA portfolio, credit risk is minimal. Often insurance is considered a less expensive way of maintaining credit quality, i.e. insuring a single A bond to bring it to a AAA rating is less expensive than buying the AAA bond outright. Certain provisions regarding trigger mechanisms for policies to become effective are judged to be improbable. One such provision is the requirement that all investment earnings be exhausted before insurance coverage becomes effective.

**2. Insurance applied to fraudulent acts or lack of fidelity on the part of program administrators or custodial services providers.**

The State is self-insured. Any claim against the portfolio would go to the Board of Control. Any fraud assertions would be heard by the Attorney General's office. Any judgment awarded would be appropriated by the Legislature. Risk management controls at third-party designated depositories provide insurance coverage through a combination of blanket bonds and all-risk policies. Since by custom all PMIA investments are domiciled at third-party depositories, losses on these securities due to fraudulent acts or lack of fidelity by officers or employees of these institutions are insured. Risk management controls cover losses ranging up to \$500 million, depending on the incident.

---

---

# Audit Process

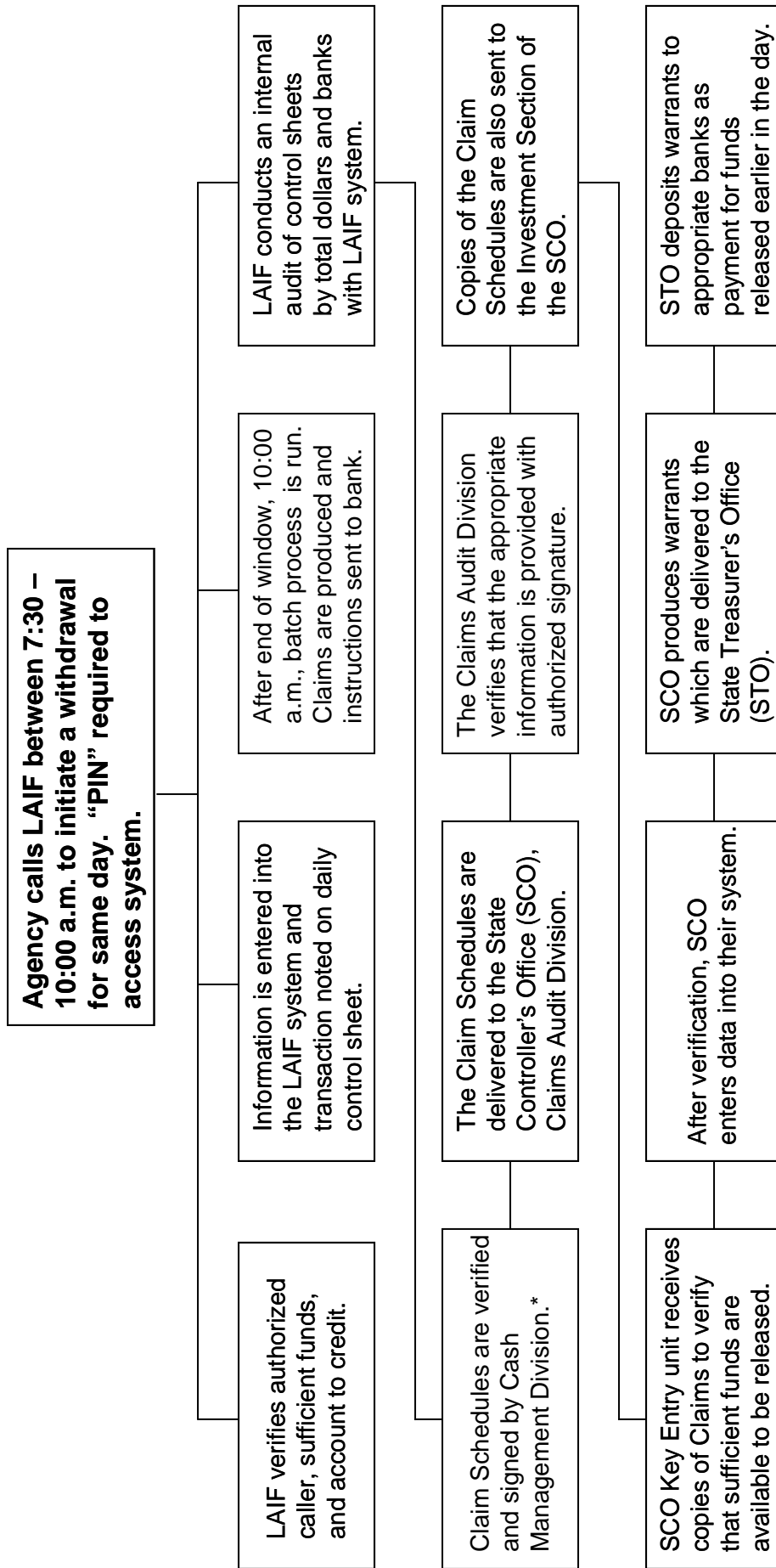
---

---

The State Treasurer's Office is audited by the Bureau of State Audits on an annual basis. The resulting opinion is posted on the STO website at [www.treasurer.ca.gov/laif](http://www.treasurer.ca.gov/laif) following its publication. The Bureau of State Audits also has a continuing audit process throughout the year. All investment and LAIF claims are audited on a daily basis by the State Controller's Office as well as an in-house audit process involving three separate divisions.

# State Treasurer's Office

## Audit Process for Withdrawals from LAIF



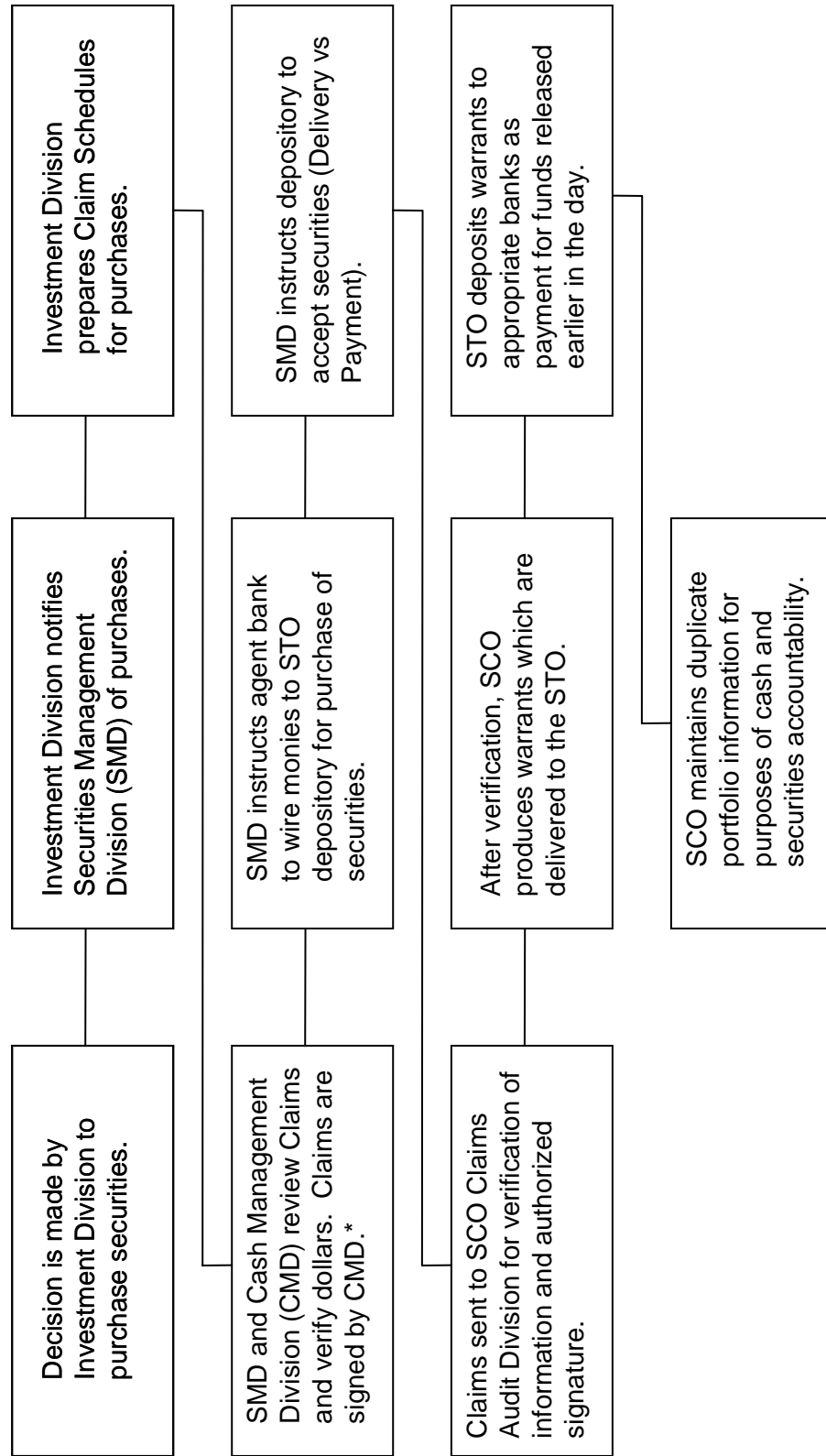
\* Divisions producing Claim Schedules may NOT sign to authorize payment.  
 SCO has authorized signature cards on file.  
 ALL CLAIMS APPROVED AND PROCESSED BY 2:30 P.M. SAME DAY.



# State Treasurer's Office

## Pooled Money Investment Account (PMIA)

### Claim Schedule Audit Process for Purchases



\* Divisions producing Claim Schedules may NOT sign to authorize payment.  
 SCO has authorized signature cards on file.  
 ALL CLAIMS APPROVED AND PROCESSED BY 2:30 P.M. SAME DAY.

---

---

# How to Participate in LAIF

---

---

Local governmental agencies may participate in LAIF by filing a resolution adopted by the agency's governing board with the State Treasurer's Office and by completing and submitting a Bank and Authorization Form. Additionally, local agencies may deposit bond proceeds by following the aforementioned procedures, completing a bond application, and submitting all the original documentation with a completed copy of the Official Statement.

Note: Local agencies that wish to open a new account with LAIF, please contact the LAIF staff at (916) 653-3001.

<b>DOCUMENTS REQUIRED</b>	<b>Regular LAIF Account</b>	<b>Bond Account &amp; Trustee Bond Account</b>
<b>Resolution (see sample)</b>	√	√
<b>Bank &amp; Authorization Form</b>	√	√
<b>Bond Application</b>		√
<b>Official Statement</b>		√

Regular LAIF accounts are subject to a \$40 million cap and 15 transactions a month, while bond accounts have no cap. Bond proceeds may be withdrawn 30-calendar days from the day of deposit and each subsequent 30-day period. The withdrawal date will advance to the next business day and the 30-day period will go forward from that date when the maturity day falls on a holiday or a weekend.

The Treasurer's investment program is designed to benefit all members of the Pooled Money Investment Account, which LAIF is a participant. Due to the nature of bond accounts, a drawdown schedule is required as part of the application. Therefore, bond accounts are one-way accounts. Bond proceeds are deposited into an account and funds are withdrawn until depleted. Reopening of the same account or re-depositing of funds from a prior issue to establish a new account is not permitted. This safeguard as well as the 30-day draw minimizes any negative impact or potential harm that the additional need for liquidity may create for the overall program.

# Regular Account Sample Resolution

RESOLUTION OF \_\_\_\_\_ (CITY/DISTRICT)

AGENCY  
ADDRESS \_\_\_\_\_

AGENCY  
PHONE NUMBER \_\_\_\_\_

## AUTHORIZING INVESTMENT OF MONIES IN THE LOCAL AGENCY INVESTMENT FUND

**WHEREAS**, Pursuant to Chapter 730 of the statutes of 1976 Section 16429.1 was added to the California Government Code to create a Local Agency Investment Fund in the State Treasury for the deposit of money of a local agency for purposes of investment by the State Treasurer; and

**WHEREAS**, the City Council/Board of Directors does hereby find that the deposit and withdrawal of money in the Local Agency Investment Fund in accordance with the provisions of Section 16429.1 of the Government Code for the purpose of investment as stated therein as in the best interests of the \_\_\_\_\_ (City/District).

**NOW THEREFORE, BE IT RESOLVED**, that the City Council/Board of Directors does hereby authorize the deposit and withdrawal of \_\_\_\_\_ (City/District) monies in the Local Agency Investment Fund in the State Treasury in accordance with the provisions of Section 16429.1 of the Government Code for the purpose of investment as stated therein, and verification by the State Treasurer's Office of all banking information provided in that regard.

**BE IT FURTHER RESOLVED**, that the following \_\_\_\_\_ (City/District) officers **or their successors in office** shall be authorized to order the deposit or withdrawal of monies in the Local Agency Investment Fund:

_____ (NAME)	_____ (NAME)	_____ (NAME)
_____ (TITLE)	_____ (TITLE)	_____ (TITLE)
_____ (SIGNATURE)	_____ (SIGNATURE)	_____ (SIGNATURE)

**PASSED AND ADOPTED**, by the City Council/Board of Directors of \_\_\_\_\_ (City/District) \_\_\_\_\_ (County) of State of California on \_\_\_\_\_ (Date) .

**Note: Resolution must be adopted by the governing body. Please submit a certified copy of the resolution to LAIF. A certified copy is 1) a copy of the resolution affixed with the seal of the agency or 2) a copy of the resolution attested by the City Clerk/Board Secretary with his/her original signature.**

# Trustee Bond Account Sample Resolution

RESOLUTION OF \_\_\_\_\_  
(City/District)

AGENCY  
ADDRESS \_\_\_\_\_

AGENCY  
PHONE NUMBER \_\_\_\_\_

## AUTHORIZING BOND PROCEEDS IN THE LOCAL AGENCY INVESTMENT FUND

**WHEREAS**, Pursuant to Chapter 730 of the statutes of 1976 Section 16429.1 was added to the California Government Code to create a Local Agency Investment Fund in the State Treasury for the deposit of money of a local agency for purposes of investment by the State Treasurer; and

**WHEREAS**, the City Council/Board of Directors does hereby find that the deposit and withdrawal of proceeds from bonds, notes, certificates of participation, or other forms of indebtedness (proceeds) in the Local Agency Investment Fund in accordance with the provisions of Government Code Section 16429.1 is in the best interest of City/District and the holders of the (City/District) indebtedness.

**NOW THEREFORE, BE IT RESOLVED**, that the City Council/Board of Directors does hereby authorize the deposit and withdrawal of (City/District) proceeds in the Local Agency Investment Fund in the State Treasury in accordance with the provisions of Government Code Section 16429.1 for the purpose of investment as stated therein, and verification by the State Treasurer's Office of all banking information provided in that regard.

**BE IT FURTHER RESOLVED**, that the following trustee or fiscal agent of the (City/District) shall be the authorized to order the deposit or withdrawal of monies in the Local Agency Investment Fund: (Trustee/Fiscal Agent) until the City/District notifies the Local Agency Investment Fund in writing of any change in the trustee or fiscal agent.

**PASSED AND ADOPTED**, by the City Council/Board of Directors of (City/District)  
(County) of State of California on (Date).

**Note: Resolution must be adopted by the governing body. Please submit a certified copy of the resolution to LAIF. A certified copy is 1) a copy of the resolution affixed with the seal of the agency or 2) a copy of the resolution attested by the City Clerk/Board Secretary with his/her original signature.**

---

# Procedures for LAIF Transactions

---

- ◆ Office hours: 7:30 a.m. to 4:15 p.m.
- ◆ For same day transaction, please call LAIF by 10:00 a.m.
- ◆ Transaction calls received after 10:00 a.m. will be for the next business day
- ◆ Maximum 15 transactions (combination of deposits and withdrawals) per month
- ◆ Minimum transaction amount \$5,000, in increments of a thousand dollars
- ◆ Provide LAIF at least one-day's advance notice for withdrawals of \$10 million or more
- ◆ Transactions may be requested 10 calendar days in advance of effective date
- ◆ Prior to the funds transfer an authorized person must call LAIF to do a verbal transaction
- ◆ Please make telephone calls which pertain to account activities and/or general information after 10:00 a.m. so our lines will be available for daily transactions

The authorized official or trustee must notify LAIF by telephone at (916) 653-3001 and provide the following information:

DEPOSITS	WITHDRAWALS
<ul style="list-style-type: none"> <li>• LAIF PIN Number</li> <li>• Name of Agency</li> <li>• Name of Caller</li> <li>• Transfer Date</li> <li>• Deposit Amount</li> <li>• Bank Name</li> </ul>	<ul style="list-style-type: none"> <li>• LAIF PIN Number</li> <li>• Name of Agency</li> <li>• Name of Caller</li> <li>• Transfer Date</li> <li>• Withdrawal Amount</li> <li>• Bank Name and Account Number</li> </ul>
Confirmation number will be provided after LAIF staff enters the transaction.	Confirmation number will be provided after LAIF staff enters the transaction.
<p>After calling LAIF, agency needs (to instruct its bank) to transfer funds to one of the following LAIF depository banks.</p> <p>Bank of America Bank of the West California Bank &amp; Trust Union Bank of California U.S. Bank Wells Fargo Bank Westamerica Bank</p>	<p>Transfer will be processed only through bank account(s) authorized by the agency in writing and currently on file with LAIF. The bank account(s) must be in the agency's name.</p>
<p>LAIF participants should keep a record of the following: name of the LAIF staff who took the deposit or withdrawal, the date and the time phone call was made, the effective date of the transaction, the LAIF confirmation number and the name of the agency's bank representative that executed the transfer.</p>	

---



---

# Reporting Documents

---



---

DESCRIPTION OF ITEM	FREQUENCY	AVAILABLE VIA	TARGETED DATE OF RELEASE
<b>LAIF Monthly Statement</b> Statement of activity, which includes the beginning and ending balances and all transactions or adjustments which took place for the previous month.	Monthly	Mail	20th of month
<b>PMIA Summary of Investment Data</b> Analysis of the Pooled Portfolio indicates the previous month changes for the portfolio in comparison to the previous year.	Monthly	Website	20th of month
<b>PMIA Market Valuation</b> Pooled Portfolio indicating the estimated market value for the previous month. Fair Value Factor is provided quarterly.	Monthly	Website	20th of month
<b>PMIA Monthly Report</b> A summarization of the Pool's investment data, portfolio composition, investment transactions, time deposits and Board designations.	Monthly	Website	20th of month
<b>PMIA Maturity Schedule</b> Listing of par values maturing by date and type and the percentages represented by maturity range.	Quarterly	Website	20th of month
<b>LAIF Answer Book Update</b> Reference manual for the LAIF program, first release in January, 1997, with updates following on a quarterly basis.	Quarterly	Website	20th of month
<b>Quarterly Remittance Advice (Interest Statement)</b> Statement of quarterly interest earnings, total dollar day, the apportionment rate and the earnings ratio prepared and released by State Controller's Office.	Quarterly	STO website: <a href="http://www.treasurer.ca.gov/laif">www.treasurer.ca.gov/laif</a> or SCO website: <a href="http://laif.sco.ca.gov">http://laif.sco.ca.gov</a>	Interest posting date

# Reporting Documents Continued

DESCRIPTION OF ITEM	FREQUENCY	AVAILABLE VIA	TARGETED DATE OF RELEASE
<b>PMIA Annual Report</b> A review of the previous fiscal year and includes information about the Pooled Money Investment Account (PMIA), Surplus Money Investment Fund (SMIF), and the LAIF.	Annually	Website	20th of month
<b>LAIF Annual Information Update</b> This form is sent to participating agencies to assist LAIF staff in maintaining the most current information possible about your account with LAIF. We ask each agency to have authorized persons (currently authorized on LAIF account per agency's resolution on file with LAIF) review, sign and return this form to LAIF, whether or not changes are needed.	Annually	Mail	
<b>LAIF Calendar</b> To provide the dates the State of California (LAIF) is open for business.	Annually	Mail/Website	December
<b>LAIF Conference Material</b> "Save-the-date" notice will be sent to participating agencies approximately three months prior to the LAIF conference and the registration packet will be sent and posted on the website two months prior to the conference.	Annually	Mail/Website	Two months prior to conference

If you need assistance or have questions regarding these reporting documents, please call LAIF at (916) 653-3001.

**STO website: <http://www.treasurer.ca.gov/laif>**

---

---

# LAIIF Statutes

---

---

## **16429.1 Creation, maintenance, and operation of Local Agency Investment Fund**

(a) There is in trust in the custody of the Treasurer the Local Agency Investment Fund, which fund is hereby created. The Controller shall maintain a separate account for each governmental unit having deposits in this fund.

(b) Notwithstanding any other provisions of law, a local governmental official, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the Local Agency Investment Fund for the purpose of investment.

(c) Notwithstanding any other provisions of law, an officer of any nonprofit corporation whose membership is confined to public agencies or public officials, or an officer of a qualified quasi-governmental agency, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the Local Agency Investment Fund for the purpose of investment.

(d) Notwithstanding any other provision of law or of this section, a local agency, with the approval of its governing body, may deposit in the Local Agency Investment Fund proceeds of the issuance of bonds, notes, certificates of participation, or other evidences of indebtedness of the agency pending expenditure of the proceeds for the authorized purpose of their issuance. In connection with these deposits of proceeds, the Local Agency Investment Fund is authorized to receive and disburse moneys, and to provide information, directly with or to an authorized officer of a trustee or fiscal agent engaged by the local agency, the Local Agency Investment Fund is authorized to hold investments in the name and for the account of that trustee or fiscal agent, and the Controller shall maintain a separate account for each deposit of proceeds.

(e) The local governmental unit, the nonprofit corporation, or the quasi-governmental agency has the exclusive determination of the length of time its money will be on deposit with the Treasurer.

(f) The trustee or fiscal agent of the local governmental unit has the exclusive determination of the length of time proceeds from the issuance of bonds will be on deposit with the Treasurer.

(g) The Local Investment Advisory Board shall determine those quasi-governmental agencies which qualify to participate in the Local Agency Investment Fund.

(h) The Treasurer may refuse to accept deposits into the fund if, in the judgment of the Treasurer, the deposit would adversely affect the state's portfolio.



(i) The Treasurer may invest the money of the fund in securities prescribed in Section 16430. The Treasurer may elect to have the money of the fund invested through the Surplus Money Investment Fund as provided in Article 4 (commencing with Section 16470) of Chapter 3 of Part 2 of Division 4 of Title 2.

(j) Money in the fund shall be invested to achieve the objective of the fund which is to realize the maximum return consistent with safe and prudent treasury management.

(k) All instruments of title of all investments of the fund shall remain in the Treasurer's vault or be held in safekeeping under control of the Treasurer in any federal reserve bank, or any branch thereof, or the Federal Home Loan Bank of San Francisco, with any trust company, or the trust department of any state or national bank.

(l) Immediately at the conclusion of each calendar quarter, all interest earned and other increment derived from investments shall be distributed by the Controller to the contributing governmental units or trustees or fiscal agents, nonprofit corporations, and quasi-governmental agencies in amounts directly proportionate to the respective amounts deposited in the Local Agency Investment Fund and the length of time the amounts remained therein. An amount equal to the reasonable costs incurred in carrying out the provisions of this section, not to exceed a maximum of one-half of 1 percent of the earnings of this fund, shall be deducted from the earnings prior to distribution. The amount of this deduction shall be credited as reimbursements to the state agencies, including the Treasurer, the Controller, and the Department of Finance, having incurred costs in carrying out the provisions of this section.

(m) The Treasurer shall prepare for distribution a monthly report of investments made during the preceding month.

(n) As used in this section, "local agency," "local governmental unit," and "local governmental official" includes a campus or other unit and an official, respectively, of the California State University who deposits moneys in funds described in Sections 89721, 89722, and 89725 of the Education Code.

#### **16429.2 Local investment advisory board**

There is created the Local Investment Advisory Board consisting of five members. The chairman shall be the State Treasurer or his or her designated representative. Two members who are qualified by training and experience in the field of investment or finance, shall be appointed by the State Treasurer. Two members who are treasurers, finance or fiscal officers or business managers, employed by any county, city or local district or municipal corporation of this state, shall be appointed by the Treasurer.

The term of office of each appointed member of the board is two years, but each appointed member serves at the pleasure of the appointing authority. A vacancy in the appointed membership, occurring other than by expiration of term, shall be filled in the same manner as the original appointment, but for the unexpired term only.

Members of the board who are not state officers or employees shall not receive a salary, but shall be entitled to a per diem allowance of one hundred dollars (\$100) for each day's attendance at a meeting of the board, not to exceed three hundred dollars (\$300) in any month. All members shall be entitled to reimbursement for expenses incurred in the performance of their duties under this part, including travel and other necessary expenses.

The board's primary purpose shall be to advise and assist the State Treasurer in formulating the investment and reinvestment of moneys in the Local Agency Investment Fund, and the acquisition, retention, management, and disposition of investments of the fund. The board, from time to time, shall review those policies and advise therein as it considers necessary or desirable. The board shall advise the State Treasurer in the management of the fund and consult the State Treasurer on any matter relating to the investment and reinvestment of moneys in the fund.

### **16429.3 Deposits; prohibited transfers and loans; impoundment or seizure**

Moneys placed with the Treasurer for deposit in the Local Agency Investment Fund by cities, counties, special districts, nonprofit corporations, or qualified quasi-governmental agencies shall not be subject to either of the following:

- (a) Transfer or loan pursuant to Sections 16310, 16312, or 16313.
- (b) Impoundment or seizure by any state official or state agency.

### **16429.4 Right of withdrawal**

The right of a city, county, city and county, special district, nonprofit corporation, or qualified quasi-governmental agency to withdraw its deposited moneys from the Local Agency Investment Fund, upon demand, may not be altered, impaired, or denied, in any way, by any state official or state agency based upon the state's failure to adopt a State Budget by July 1 of each new fiscal year.

---

---

# PMIA Statutes

---

---

## **16430 Eligible securities for investment of surplus moneys**

Eligible securities for the investment of surplus moneys shall be any of the following:

- (a) Bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- (b) Bonds or interest-bearing notes on obligations that are guaranteed as to principal and interest by a federal agency of the United States.
- (c) Bonds and notes of this state, or those for which the faith and credit of this state are pledged for the payment of principal and interest.
- (d) Bonds or warrants, including, but not limited to, revenue warrants, of any county, city, metropolitan water district, California water district, California water storage district, irrigation district in the state, municipal utility district, or school district of this state.
- (e) Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, in debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended, in bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, in stock, bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act as amended, and in the bonds of any federal home loan bank established under that act, obligations of the Federal Home Loan Mortgage Corporation, in bonds, notes, and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act as amended, and bonds, notes, and other obligations guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act as amended.
- (f) (1) Commercial paper of “prime” quality as defined by a nationally recognized organization that rates these securities. Eligible paper is further limited to issuing corporations or trusts approved by the Pooled Money Investment Board that meet the conditions in either subparagraph (A) or subparagraph (B):
  - (A) Both of the following:
    - (i) Organized and operating within the United States.
    - (ii) Having total assets in excess of five hundred million dollars (\$500,000,000).

- (B) Both of the following:
  - (i) Organized within the United States as special purpose corporation or trust.
  - (ii) Having programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
- (2) Purchases of eligible commercial paper may not exceed 180 days' maturity, represent more than 10 percent of the outstanding paper of an issuing corporation or trust, nor exceed 30 percent of the resources of an investment program. At the request of the Pooled Money Investment Board, this investment shall be secured by the issuer by depositing with the Treasurer securities authorized by Section 53651 of a market value at least 10 percent in excess of the amount of the state's investment.
- (g) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System.
- (h) Negotiable certificates of deposits issued by a federally or state-chartered bank or savings and loan association, a state-licensed branch of a foreign bank, or a federally or state-chartered credit union. For the purposes of this section, negotiable certificates of deposits do not come within the provisions of Chapter 4 (commencing with Section 16500) and Chapter 4.5 (commencing with Section 16600).
- (i) The portion of bank loans and obligations guaranteed by the United States Small Business Administration, or the United States Farmers Home Administration.
- (j) Bank loans and obligations guaranteed by the Export-Import Bank of the United States.
- (k) Student loan notes insured under the Guaranteed Student Loan Program established pursuant to the Higher Education Act of 1965, as amended (20 U.S.C. Sec.1001 and following) and eligible for resale to the Student Loan Marketing Association established pursuant to Section 133 of the Education Amendments of 1972, as amended (20 U.S.C. Sec. 1087-2).
- (l) Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation, or the Government Development Bank of Puerto Rico.
- (m) Bonds, debentures, and notes issued by corporations organized and operating within the United States. Securities eligible for investment under this subdivision shall be within the top three ratings of a nationally recognized rating service.

## **Chapter 3**

### **INVESTMENTS**

#### **Article 4.5**

#### **TREASURY POOLED MONEY INVESTMENTS**

##### **16480.4 Securities eligible for investment; sale, exchange or repurchase**

- (a) Amounts available for investment under this article may be invested and reinvested by the State Treasurer in any securities described in Sections 16430, of this code or in loans to the General Fund as provided in Section 16310 of this code. Such securities may be sold by the State Treasury or exchanged by him for other securities of the kind authorized to be purchased hereunder, if, in his discretion, such sale or exchange appears to be in the best interests of the state. The State Treasurer may enter into repurchase agreements or reverse repurchase agreements of any securities described in Section 16430.
- (b) The State Treasurer may hire or engage the services of an investment analyst to assist in such investment decisions.
- (c) For purposes of this section, the term “repurchase agreement” means a purchase of securities by the State Treasurer pursuant to an agreement by which the seller will repurchase such securities on or before a specified date and for a specified amount.
- (d) For purposes of this section, the term “reverse repurchase agreement” means a sale of securities by the State Treasurer pursuant to an agreement by which the State Treasurer will repurchase such securities on or before a specified date and for a specified amount.

**LOCAL AGENCY INVESTMENT FUND**  
**AUTHORIZATION FOR TRANSFER OF FUNDS**

DATE

AGENCY NAME

LAIF ACCOUNT #

**ADDITIONS**

Name	Title	Signature

**DELETIONS**

Name

Please mail completed form to:

*State Treasurer's Office  
Local Agency Investment Fund  
P.O. Box 942809  
Sacramento, CA 94209-0001*

\_\_\_\_\_  
Print Title

\_\_\_\_\_  
Print Name

X \_\_\_\_\_  
Authorized Signature  
(Must be authorized per Resolution)

\_\_\_\_\_  
Print Title

\_\_\_\_\_  
Print Name

X \_\_\_\_\_  
Authorized Signature  
(Must be authorized per Resolution)

**Two authorized signatures required**

# LOCAL AGENCY INVESTMENT FUND

## AUTHORIZATION FOR ADDITIONS OF BANK AND/OR ACCOUNT NUMBERS \*

DATE

AGENCY NAME

LAIF ACCOUNT #

Bank name, branch number,  
bank address & telephone  
number

Account & ABA number  
(attach complete wiring  
instructions if applicable)

Correspondent bank  
(STO receiving bank)


\*Subject to verification by State Treasurer's Office

## AUTHORIZATION FOR DELETIONS OF BANK AND/OR ACCOUNT NUMBERS

Bank name

Account number


Print Title

Print Title

Print Name

Print Name

X \_\_\_\_\_  
Authorized Signature  
(Must be authorized per Resolution)

X \_\_\_\_\_  
Authorized Signature  
(Must be authorized per Resolution)

Two authorized signatures required

PLEASE MAIL COMPLETED FORM TO:

STATE TREASURER'S OFFICE  
LOCAL AGENCY INVESTMENT FUND  
P.O. BOX 942809  
SACRAMENTO, CA 94209-0001